

Chairman Eccles

Z-1265

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

January 8, 1944

To: Mr. Eccles and Board Members Subject: Patman bill re
From: M. S. Szymczak International Bank.

I suggest that the attached Memo from Walter Gardner to me be read by each Board Member and that the subject be discussed at an early full meeting of the Board.

Mr. Ransom advises that Congressman Patman proposes to ask the Board to testify on his bill, a copy of which is hereto attached.

(Signed) M. S. S.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

January 7, 1944

To Governor Szymczak

From Walter R. Gardner

Subject: Patman bill tying Treasury
investment bank proposal
to Federal Reserve Act

The attached bill introduced by Mr. Patman in the House of Representatives on December 16, 1943, proposes an amendment to the Federal Reserve Act. Therefore, if hearings are held on the bill, the Board will undoubtedly be called upon to testify. The bill has nothing to do directly with the organization or operation of the Federal Reserve System. In essence it approves the Treasury's proposal for an international investment bank, a copy of which is attached, and authorizes the President to enter into an agreement with other nations to establish such a bank. It also authorizes appropriation of the funds necessary for a U. S. subscription to its shares. There is no suggestion that the Federal Reserve System should itself subscribe to the shares or have any responsibilities in connection with the bank.

If the Board is called upon to testify, it will be faced with a decision as to what attitude to take on the recent Treasury proposal. With the purpose of that proposal the Board has repeatedly evidenced its agreement. It has been our position that adequate measures for foreign relief and international investment are more fundamental than an instrumentality such as the proposed international exchange fund. In fact without those more fundamental measures the exchange fund is likely to be abused and be forced to become an instrument for permanent financing for which purpose it is extremely ill-adapted. If foreign gold, including the fund's resources, flows to the United States on a permanent basis our own money supply and member bank reserves will be correspondingly increased and our credit problem intensified. And the funds that we thus make available to foreigners in exchange for their gold will be distributed in a haphazard manner. They will be used to finance balance of payments deficits created by miscellaneous expenditures and they will benefit the countries that happen to have the gold or the quotas rather than those who have the needs or the best investment opportunities. When the gold and the quotas give out, foreign countries will be driven to the measures of direct trade control that plagued us in the 30's. The stabilization fund is a bad device for permanent financing.

If permanent financing needs are met in the proper way, however the pressure on the management of the fund, itself heavily loaded with debtor interests, will be lighter and its chances of functioning as a purely balancing device will be greatly improved. Relief and investment

measures will involve none of the difficulties to which the fund is subject when twisted to uses for which it is not designed. The resources for relief and investment should largely come from taxes or loans sold to the public. They will neither create new money here nor drain foreign monetary systems. They will be expended on carefully conceived projects in the areas in which they are needed. They will not only help to balance international transactions in the immediate post-war years but they will meet pressing foreign needs and assist in building up the exporting power of the borrowing countries. In every way -- from the standpoint of the Federal Reserve System, this nation, and the world -- international investment appears preferable to financing on a permanent basis through a gold flow or the fund.

But though the Board has strong grounds for supporting measures to restore international investment, it may not wish to commit itself to the Treasury proposal in its existing form. This is a tentative proposal which has not yet been fully discussed among the American technicians and has hardly been discussed at all with foreigners. There was only one morning's talk with the British about it while they were here -- a talk of a highly preliminary character in which the British nevertheless raised some fundamental objections. They seriously questioned 1) the requirement that net borrowing countries should contribute resources to the bank, 2) the *prima facie* requirement that goods must be bought in the country which supplies the credit rather than in the cheapest market, and 3) what appeared to them to be the too conservative principles governing the extension of credit by the bank. In the State Department there is also skepticism with regard to the sort of bank proposed by the Treasury. The question is being weighed whether it may not be better to appropriate U. S. Funds to the existing Export-Import Bank or some other U. S. agency for international investment on a cooperative basis with foreign countries. We, too, have some questions as indicated in Miss Bourneuf's analysis of the Treasury proposal and my brief accompanying note of December 6, which you already have. It seems definitely premature to commit ourselves to the Treasury plan in its present form.

I have discussed the matter with Mr. Goldenweiser and it appears to us that the Board might properly take a position somewhat as follows. We regard the revival of international investment as a major necessity in the post-war period. We are, therefore, gratified by the sympathy evident in the Patman bill both for this viewpoint and for the particular proposal that we now have actively under consideration. We should regard it as premature, however, to commit ourselves finally to this proposal which still is in the formative stage of technical analysis here and on which we have still to obtain the views of foreign technicians, who will not like to be told that the matter is already decided.

Such a position would indicate no lack of sympathy with the Treasury proposal and it would emphatically endorse its general purpose, but it would permit the Board to remain uncommitted until the whole project is more advanced. While this would take care of the situation created

To: Governor Szymczak

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by the Patman bill, it seems desirable for the Board at an early date to discuss the investment bank proposal and determine its attitude toward it. Only as this is done will the Board's staff be in position to exercise its influence toward shaping a project at the technical level which will embody the Board's wishes.